

Message Text

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ORIGIN EB-07

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E.O. 11652: N/A

TAGS: ENRG, OECD

SUBJECT: IEA: STANDING GROUP ON THE OIL MARKET (SOM) AND
AD HOC WORKING GROUP MEETINGS, APRIL 18-21

1) SUMMARY-THE SOM MET APRIL 21-22 PRECEDED BY MEETINGS OF THE TWO SOM WORKING GROUPS. AMONG THE TOPICS DISCUSSED WERE CURRENT CONDITIONS IN THE OIL MARKET, THE INFORMATION SYSTEMS FOR COLLECTION OF DATA ON PETROLEUM PRICES AND COSTS AND CAPITAL INVESTMENT AND THE PROCEDURE FOR SUBMISSION OF DATA UNDER THE AGGREGATION/DISAGGREGATION COMPROMISE. THE SOM DECIDED TO CONTINUE, ON A TEMPORARY BASIS, TO COLLECT CRUDE OIL PRICE DATA FROM IEA MEMBER COUNTRIES ON A MONTHLY BASIS. CONSULTATIONS WERE HELD WITH EXXON AND Veba ON THEIR VIEWS ON THE OIL MARKET. END SUMMARY.

2) THE AD HOC WORKING GROUP ON CAPITAL INVESTMENTS AND FINANCIAL STRUCTURE MET ON APRIL 18 TO DISCUSS ALTERNATIVES FOR A SYSTEM TO COMPILE HISTORICAL INVESTMENT DATA. THE DISCUSSION WAS PRECEDED BY A REPORT FROM GROUP REPRESENTATIVES WHO HAD VISITED CHASE MANHATTAN BANK (CMB) TO INVESTIGATE THE CHASE SYSTEM FOR COMPILING SUCH DATA AND AN ORAL REPORT BY TWO REPRESENTATIVES OF THE INDUSTRY WORKING PARTY (IWP) GIVING THAT GROUP'S VIEWS ON THE

POSSIBILITY OF AN INDEPENDENT IEA SYSTEM WHICH WOULD COLLECT THIS DATA DIRECTLY FROM THE OIL COMPANIES AND OTHER SOURCES

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3) THE DEBATE CENTERED, AS IT HAS IN PAST MEETINGS, ON WHETHER THE SOM SHOULD USE THE CMB SYSTEM AS A BASE OR SHOULD CREATE A NEW SYSTEM AND USE THE CHASE DATA ONLY AS A CHECK ON DATA GATHERED DIRECTLY BY THE IEA. THE ITALIANS WITH THE SUPPORT OF THE DUTCH AND THE GERMANS ARGUED FOR THE LATTER SAYING THE IEA, FOR POLITICAL REASONS, SHOULD NOT RELY ON GETTING ITS DATA FROM AN AMERICAN BANK.

4) THE US AND UK DELEGATIONS TOOK THE OPPOSITE VIEW PRIMARILY BECAUSE THE SECRETARIAT DOES NOT HAVE THE CAPABILITY TO PUT TOGETHER SUCH A SYSTEM AND IT WOULD BE WASTEFUL TO ACQUIRE SUCH EXPERTISE JUST TO DUPLICATE THE CMB SYSTEM. IN CONCLUSION THE GROUP AGREED TO CONTINUE TO EXPLORE BOTH APPROACHES AND TO INVESTIGATE THE POSSIBILITY OF HAVING SOME COMPANY DATA MADE AVAILABLE TO THE IEA BY CMB.

5) THE SECRETARIAT PRESENTED ITS PROGRESS REPORT ON THE FORECAST OF OIL AND GAS CAPITAL REQUIREMENTS. IT APPEARS TO BE HAVING DIFFICULTIES IN DEVELOPING ACCEPTABLE INVESTMENT FACTORS. THE SECRETARIAT AGREED TO CONTINUE WORKING ON THESE FACTORS AND

REPORT TO THE GROUP AT ITS NEXT MEETING.

6) THE AD HOC GROUP ON CRUDE OIL AND PETROLEUM PRODUCT COST AND PRICE REPORTING SYSTEMS MET THE FOLLOWING DAY TO DISCUSS THE EXPERIENCE GAINED THUS FAR WITH THE MONTHLY REPORTING OF THIS DATA AND OTHER ASPECTS OF THIS INFORMATION SYSTEM. INCLUDED WAS ANOTHER REPORT PRESENTED BY THE IWP REPRESENTATIVES, ON A NUMBER OF TECHNICAL REVISIONS SUBMITTED TO THE IWP BY THE AD HOC GROUP FOR ITS VIEWS. SEVERAL OF THE IWP SUGGESTIONS WERE ACCEPTED WHILE OTHERS WERE REFERRED BACK TO IT
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FOR ELABORATION.

7) THE GROUP AGREED TO RECOMMEND TO THE FULL SOM THAT THE CURRENT PRACTICE OF REPORTING CRUDE OIL PRICE DATA MONTHLY AND ON A DATE OF LOADING BASIS BE CONTINUED FOR THE SECOND QUARTER. (THIS PRACTICE HAS BEEN IN EFFECT ON A TEMPORARY BASIS DURING THE

FIRST QUARTER OF THIS YEAR.) THE RECOMMENDATION WAS SUBSEQUENTLY APPROVED BY THE SOM, WITH THE NOTATION IT SHOULD ALSO CONTINUE TO BE ON A QUOTE BEST EFFORT BASIS END QUOTE IN VIEW OF THE DIFFICULTIES EXPRESSED BY SOME DELEGATIONS IN COLLECTING THIS INFORMATION. REGULAR QUARTERLY REPORTING ON A DATE OF LANDING BASIS WILL BE CONTINUED.

8) THE SOM BEGAN ITS TWO DAY MEETING WITH REPORTS FROM THE CHAIRMAN OF THE TWO WORKING GROUPS AND CONSULTATIONS WITH REPRESENTATIVES FROM EXXON AND VEB. EXXON PRECEDED ITS REMARKS THIS TIME WITH THE CAVEAT THAT IT WAS CONSTRAINED BY ITS RELATIONSHIP WITH THE SAUDI GOVERNMENT AND THAT ANY DATA IT USED WITH REGARD TO SAUDI PRODUCTION WOULD BE DATA ALREADY RELEASED BY THE SAG AND WITH WHICH EXXON AGREED.

9) THE EXXON REP GAVE A COMPREHENSIVE REVIEW OF THE OIL MARKET AND ANSWERED A NUMBER OF QUESTIONS FROM THE DELEGATIONS. THEY STATED THAT SAUDI PRODUCTION WAS INCREASING ON SCHEDULE AND THAT DEMAND FOR LOW SULPHUR CRUDES WAS MODERATING, HELPING TO IMPROVE THE MARKETABILITY OF HEAVY, SOUR ARAB OILS. THEY WOULD NOT FORECAST THE RESOLUTION OF THE TWO TIER PRICE SYSTEM. THE PRESENTATION WAS WELL RECEIVED AND THERE WAS NO DISAGREEMENT WHEN THE CHAIRMAN OF THE SOM (BECKER-FRG) EXPRESSED THE VIEW
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THAT EXXON HAD GIVEN A GOOD PICTURE OF THE SITUATION AND HAD SHOWN A GREAT DEAL MORE WILLINGNESS TO SHARE ITS DATA THAN AT ITS PRIOR CONSULTATION AT THE LAST SOM MEETING.

10) VEBA'S PRESENTATION, ALSO WELL RECEIVED, SPOKE PRINCIPALLY TO THE PROBLEMS OF THE SMALL EUROPEAN REFINER IN A PERIOD OF SURPLUS REFINERY CAPACITY. VEBA'S CRUDE OIL SUPPLIES INCLUDE 30 PERCENT LOWER TIER OIL.

11) EACH DELEGATION THEN GAVE A BRIEF REPORT ON THE EFFECT OF THE TWO-TIER PRICE SYSTEM IN THE RESPECTIVE COUNTRIES. IN GENERAL THE REPORTS INDICATED THAT LITTLE CHANGE IN PRICES OR SUPPLY PATTERNS HAS BEEN SEEN THUS FAR. SEVERAL EUROPEAN DELEGATIONS STATED THAT PRICES WERE SEEMING MORE RESPONSIVE TO THE COMPETITIVE PRESSURES IN THE ROTTERDAM SPOT MARKET THAN THE DOHA DECISION.

12) THE US IN ITS REPORT STATED THAT:

-- REFINERS' CRUDE OIL COSTS HAD GONE UP 17 CENTS IN JANUARY DUE TO HIGHER IMPORT COSTS, AND A SIMILAR INCREASE WAS ESTIMATED FOR FEBRUARY;

-- PRODUCT PRICE INCREASES HAD IN GENERAL BEEN GREATER THAN INCREASES IN CRUDE OIL PRICES;

-- WHILE SAUDI ARABIA PROVIDES 19 PERCENT OF US IMPORTS, NIGERIA HAS NOW BECOME THE LARGEST SUPPLIER OF OIL TO THE US;

-- THE US REGULATORY SYSTEM HAD NOT BEEN CHANGED IN RESPONSE TO THE DOHA DECISION AND IT IS FELT TO BE NEUTRAL WITH RESPECT TO ENCOURAGING THE LIFTING

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OF LOWER TIER OIL.

13) A PAPER DRAFTED BY THE SECRETARIAT ON CURRENT CONDITIONS IN THE OIL MARKET WAS CIRCULATED FOR COMMENTS BY THE DELEGATIONS. A REVISED VERSION OF THIS PAPER INCLUDING THE REMARKS FROM EACH COUNTRY ON THE EFFECT OF THE TWO TIER SYSTEM, WAS TO BE PRESENTED TO THE GOVERNING BOARD MEETING THE FOLLOWING WEEK BY THE SOM CHAIRMAN.

14) INTER ALIA THE US DEL OBJECTED TO SEVERAL STATEMENTS IN THE PAPER WHICH EXPRESSED PESSIMISM WITH RESPECT TO SAUDI ARABIA'S ABILITY TO INFLUENCE THE OIL MARKET AND THEIR INTENTIONS REGARDING INCREASED PRODUCTION. IT WAS ALSO SUGGESTED THAT THE SECTION OF THE PAPER ON POLICY ASPECTS BE CHANGED TO REFLECT THE VIEW THAT RELAXATION OF ENVIRONMENTAL RESTRICTIONS ON SULPHUR CONTENT SHOULD BE STUDIED BUT THAT IT WOULD BE PREMATURE TO MAKE RECOMMENDATIONS IN THAT REGARD UNTIL THE ENVIRONMENTAL COSTS ARE KNOWN.

15) THE MOST CONTENTIOUS ISSUE OF THE MEETING ARO-E OUT OF WHAT WAS BILLED ON THE AGENDA AS A QUOTE PROGRESS REPORT BY THE SECRETARIAT ON THE CHAIRMAN'S COMPROMISE PROCEDURE. END QUOTE.

THE SECRETARIAT ANNOUNCED THAT IT INTENDED TO INVOKE THE CHAIRMAN'S COMPROMISE FOR THE FIRST TIME TO INVESTIGATE SOME ANOMALIES IN THE DATA FROM DENMARK AND THAT AS A PART OF THIS INVESTIGATION WOULD ALSO REQUEST DISAGGREGATED DATA FROM SWEDEN AND GERMANY FOR PURPOSES OF COMPARISON.

16) THE US AND UK DELEGATIONS VOICED STRONG RESERVATIONS ABOUT THIS PROCEDURE AND ABOUT THE EXTENSION LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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OF THE COMPROMISE TO INCLUDE DATA THAT HAD NO ANOMALIES BUT WAS MERELY FOR THE PURPOSES OF COMPARISON. IT HAS CLEARLY BEEN THE POSITION OF THE US FROM THE OUTSET OF THIS DEBATE THAT IF ANY DISAGGREGATED INFORMATION WERE DISCUSSED WITH THE SECRETARIAT, IT WOULD BE BECAUSE OF ANOMALIES OR INCONSISTENCIES IN THE DATA.

17) THE CHAIRMAN, WITH THE CONSENT OF THE DELEGATIONS, OFFERED A COMPROMISE PROCEDURE. THE LEGAL ADVISOR OF THE IEA WILL BE REQUESTED TO PROVIDE AN OPINION ON THE INTERPRETATION OF THE CHAIRMAN'S COMPROMISE IN THIS INSTANCE. THIS TOGETHER WITH A DESCRIPTION OF THE ANOMALIES AND INCONSISTENCIES IN QUESTION WILL BE SENT TO THE VARIOUS DELEGATIONS. IF THERE IS NO OBJECTION FROM THE VARIOUS DELEGATIONS AND IF THE LEGAL OPINION PERMITS IT, THE CONSULTATIONS WILL PROCEED. IF THERE IS AN OBJECTION, THEN THE ENTIRE SUBJECT WILL BE REVIEWED AT THE NEXT SOM MEETING IN LATE JUNE TO REACH AGREEMENT AS TO HOW THE COMPROMISE IS TO BE INTERPRETED AND HOW IT CAN BE USED.

18) THE SOM AGREED TO HOLD ITS NEXT MEETING THE
WEEK OF JUNE 27. CHRISTOPHER

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